

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6225

BILL NUMBER: HB 1062

NOTE PREPARED: Jan 29, 2014

BILL AMENDED: Jan 27, 2014

SUBJECT: Debt Service Funds.

FIRST AUTHOR: Rep. Huston

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: (Amended) This bill provides that the maximum amount allowed for an operating balance in the debt service fund is the sum of:

- (1) 50% of the budget estimate for the debt service on debt originally incurred before January 1, 2009, or on debt originally incurred after December 31, 2008, but before July 1, 2014, if the first bond payment of the year is due before January 11; plus
- (2) 25% of the amount budgeted for the ensuing year for other debt service.

The bill provides that taxes levied under the allowance may not be construed as an increase in a political subdivision's property tax levy to make up for a reduction in property tax collections under the circuit breaker law.

The bill also provides that if the terms of a refinanced debt extend the period to repay the debt beyond the repayment period of the original debt, the obligation of the political subdivision to make a payment in a calendar year beginning after December 31 of the calendar year in which the original debt would have been retired is considered a debt originally incurred on the date that the refinancing is closed.

Effective Date: Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: In CY 2013, civil taxing units and school corporations had 1,268 debt service funds with debt service levies. These funds had a total budget appropriation of \$1.8 B (including additional appropriations). Budgeted operating balances in the funds totaled \$692.8 M, or 38% of the total budget appropriations, on average. Of the 1,268 total debt funds, 984 had an operating balance of 50% or less and 284 funds exceeded 50%.

Under this provision, there would be a one-time balance reduction of at least \$18.9 M if operating balances for current debt are held to 50% of appropriations or less. Balances would be reduced by cutting property tax levies for one year, resulting in tax rate decreases. About \$14.6 M of the \$18.9 M levy reduction would be in funds that are not exempt from circuit breakers. So, those levy reductions would also reduce exposure to the tax caps for one year.

For debt issued after June 30, 2014, the initial debt service levy would be smaller than currently allowed. Tax rates for new debt in the initial year might be lower than under current law. New debt that is issued after a successful referendum is exempt from the circuit breaker caps, so there would be no impact to circuit breakers for new referendum debt. The reduced operating balance could, however, reduce exposure to the tax caps in the initial year for new debt issued without a referendum.

Currently available data does not provide sufficient detail to determine which debt funds would be held to a 25% operating balance. This fiscal note will be updated if additional information is received.

State Agencies Affected: Department of Local Government Finance (DLGF).

Local Agencies Affected: Local civil taxing units and school corporations.

Information Sources: Local Government Database, DLGF.

Fiscal Analyst: Bob Sigalow, 317-232-9859.